

Message Text

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12

ACTION ARA-17

INFO OCT-01 AF-10 EUR-25 EA-11 NEA-10 ADP-00 CIAE-00

DODE-00 PM-09 H-02 INR-09 L-03 NSAE-00 NSC-10 PA-03

RSC-01 PRS-01 SS-14 USIA-12 T-03 EB-11 COME-00 INT-08

OEP-01 TRSE-00 OMB-01 CIEP-02 OPIC-12 AID-20 RSR-01

/197 W

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R 152350 Z MAR 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 9098

INFO AMEMBASSY BEIRUT

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY PORT OF SPAIN

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS

AMCONSUL DHAHRAN

USINT ALGIERS

LIMITED OFFICIAL USE CARACAS 2282

E. O. 11652: N/A

TAGS: ENRG VE OPEC

SUBJECT: COMPANIES' REACTION TO INCREASED PETROLEUM TAX
REFERENCE VALUES

1. PUBLIC REACTION OF OIL COMPANIES HERE TO INCREASES IN
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TAX REFERENCE VALUES ANNOUNCED ARCH 13 BY VENEZUELAN GOVERNMENT IS THAT INCREASES ARE VERY LARGE, THAT THEY COULD AFFECT ADVERSELY COMPETITIVE POSITION OF VENEZUELAN OIL, AND THAT THEY PLACE OIL COMPANIES IN A DIFFICULT POSITION BECAUSE U. S. PRICE CONTROLS MAY PREVENT PASSING ON COST INCREASES TO CUSTOMERS IN U. S. (SEPTEL).

2. PRIVATELY, OIL COMPANIES ALSO SAY THAT INCREASES ARE EXTREMELY HIGH, AND EMPHASIZE THAT CRUCIAL QUESTION IS WHETHER THEY WILL BE PERMITTED BY USG TO PASS ALONG THESE INCREASES. IF NOT, REDUCTION IN THEIR PROFITS FROM ADDITIONAL BS. 200 MILLION THEY WILL HAVE TO PAY TO VENEZUELAN GOVERNMENT IN FORM OF INCREASED TAXES WOULD AMOUNT TO ONE FOURTH LAST YEAR' S LEVEL OF TOTAL INDUSTRY' S PROFITS .

3. SOME COMPANIES WILL BE HIT HARDER THAN OTHERS. SOME, WHOSE PROFITS ARE ALREADY LOW, MAY FIND THEMSELVES OPERATING IN THE RED.

4. IF U. S. PRICE CONTROL AUTHORITIES ALLOW COST INCREASES TO BE PASSED ON TO CONSUMERS, COMPANY SOURCES HERE BELIEVE THAT THEY WILL BE ABLE SUCCESSFULLY TO PASS ALONG COST INCREASES OF AMOUNT IMPOSED BY VENEZUELA WITHOUT MUCH DIFFICULTY FOR MOST PRODUCTS UNDER CURRENT MARKET CONDITIONS. THIS IS PARTICULARLY TRUE OF GASOLINE, NO. 2 HEATING OIL AND NAPHTHA FOR WHICH THERE IS TREMENDOUSLY STRONG DEMAND NOW IN U. S. GREATEST PROBLEMS WILL COME IN DISPOSING OF HEAVY, HIGH SULPHUR FUEL OIL. SUBSTANTIAL VENEZUELAN CAPACITY FOR PRODUCING HEAVY, HIGH SULPHUR OIL (ABOUT 300,000 B/ D) HAS BEEN SHUT IN FOR LACK OF MARKET THIS PRODUCT. IF IT COULD NOT BE SOLD AT OLD PRICES, IT IS UNLIKELY IT CAN BE MOVED AT NEW INCREASED PRICES. SHELL EXPECTS EXISTING HIGH SULPHUR MARKET TO FALL OFF OVER SUMMER.

5. ADDITIONAL REASON FOR GLOOM IS FREIGHT RATE FORMULA. FORMERLY COMPANIES WOULD HAVE BEEN ABLE TO EXPECT INCREASED SALES AND INCREASED PROFITS IF TANKER RATES WENT UP THEREBY MAKING VENEZUELAN OIL MORE COMPETITIVE. NOW, HOWEVER, " IMPROVED" FREIGHT RATE FORMULA THAT HAS BEEN IN EFFECT SINCE JANUARY 1 GIVES VENEZUELAN GOVERNMENT SUFFICIENTLY HIGHER " TAX RAKE," AS FREIGHT RATES RISE, TO PRECLUDE COMPANIES FROM ANY GAIN IN PROFITS.
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6. OVER ALL, IT COULD BE SAID THAT SIZE OF VENEZUELAN TRV INCREASES WAS NOT SUFFICIENT TO UNDERMINE COMPETITIVE POSITION OF VENEZUELAN OIL UNDER CURRENT MARKET CONDITIONS (EXCEPT FOR FURTHER WEAKENING OF HIGH SULPHUR FUEL OIL POSITION), BUT WAS HIGH ENOUGH TO SHARPLY ERODE COMPANY PROFITS UNLESS MARKET, AND U. S. PRICE CNTROL AUTHORITIES PERMIT THEM TO PASS ALONG COST INCREASES TO CONSUMERS.
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*** Current Classification *** LIMITED OFFICIAL USE

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